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DEFENSE CONTRACT AUDIT AGENCY
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

PFC 730.5.7

19 August 1998
98-PFC-119(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: Audit Guidance on Progress Payment Distribution

In accordance with the enclosed memorandum, the Director, Defense Procurement has instructed Contracting Officers to provide distribution instructions to enable paying offices to distribute progress payments from each appropriation funding the contract, in proportions that reflect the performance of the work on the contract. This requirement is only applicable to fixed price contracts awarded after 31 August 1998 that are not firm fixed price, e.g., fixed-price incentive contracts. When the contract requires submittal of a contract funds status report (CFSR), the CFSR should be used in preparing the progress payment distribution instructions. Absent a CFSR, the contracting officer may use any information available to arrive at a best estimate of how appropriations are being used to perform the contract. However, contractors should not be required to provide any additional information to support this requirement.

Contracting officers may require accounting and/or financial advice to accomplish the above requirement, e.g., verification of CFSRs to the contractors' accounting books and records. In those instances where accounting and/or financial advice is requested, auditors should provide the requested assistance, as appropriate. Auditors are reminded that guidance related to reviews of CFSRs is contained in CAM 11-303, Contract Funds Status Report. This requirement should not have a significant impact on our reviews of CFSRs. CAM 11-303.4c already requires that reviews of individual CFSR submissions be made at the request of the contracting officer. Similarly, reporting requirements on reviews of CFSRs are contained in CAM 11-303.5

Field personnel should direct any questions regarding this memorandum to personnel in the regional office. If regional personnel are unable to answer or have questions of their own, they should contact Mr. Barry Turner, Program Manager, Pricing, Finance and Claims Division at (703) 767-2270.

for /s/Robert DiMucci
Lawrence P. Uhlfelder
Assistant Director
Policy and Plans

Enclosure
DDP Memo dated 12 August 1998

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OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION AND
TECHNOLOGY
DP/CPF

August 12, 1998

MEMORANDUM FOR DIRECTORS OF DEFENSE AGENCIES

DEPUTY FOR ACQUISITION AND BUSINESS MANAGEMENT,
ASN (RD&A)/ABM
DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE
(CONTRACTING), SAF/AQC
ASSISTANT DEPUTY ASSISTANT SECRETARY OF THE ARMY
(PROCUREMENT)/DIRECTOR FOR CONTRACTING
SENIOR PROCUREMENT EXECUTIVE, DEFENSE LOGISTIC
AGENCY

SUBJECT: Progress Payment Distribution

Contracting officers responsible for administering progress payments shall provide progress payment distribution instructions to the contract paying office for certain new contracts awarded after August 31, 1998. This requirement applies to any fixed-price contract funded with multiple appropriations that is other than a firm fixed price contract. Contracts that are not firm fixed price, e.g., fixed-price incentive contracts, typically require adjustments to obligated funds during contract performance. Most of our contracts with progress payments are firm fixed price and do not need distribution instructions, since they do not entail this kind of adjustment.

Distribution instructions shall include sufficient information to enable the paying office to distribute progress payments from each appropriation funding the contract, in proportions that reasonably reflect the performance of the work on the contract. Instructions shall be updated as necessary. FPI contracts typically include a requirement for quarterly submittal of a contract funds status report (CFSR). The CFSR indicates funds usage by appropriation and should be used in preparing progress payment distribution instructions. Absent a CFSR, the contracting officer should use any other information available to arrive at a best estimate of how appropriations are being used to perform the contract, but it should not be necessary to require contractors to provide any additional information to support this requirement. For research and development funded contracts, contracting officers may assume contractor work will be performed using the earliest fiscal year's funding first, unless there is information available to the contrary.

The foregoing direction requires contracting officers to develop distribution instructions for each appropriation on the contract. However, paying offices maintain contract payment records using the accounting classification reference numbers (ACRNs) that identify each long

Enclosure
Page 1 of 2

line of accounting data cited by the contract. A single appropriation may be included in more than one line of accounting data, and thus be identified by more than one ACRN. Therefore, when providing distribution instructions to the paying office, the contracting officer shall further distribute payment amounts by ACRN. This ACRN-level distribution will ordinarily be on a pro rata basis across the amount to be distributed from each appropriation, unless the contracting officer has information indicating otherwise.

My staff point of contact for this policy is Mr. Richard Brown, (703) 695-7197 (e-mail: brownrg@acq.osd.mil).

/Signed/

Eleanor R. Spector
Director, Defense Procurement